THE DELAWARE BANKERS ASSOCIATION
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September 15, 2006
VIA ELECTRONIC MAIL

Mr. Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 Seventeenth Street, N.W.
Washington, DC 20429
comments@fdic.gov

RE: RIN 3064-AD09; Proposal to Amend Regulations for Risk-Based Premiums; 71 Federal Register 41910; July 24, 2006

Dear Mr. Feldman:

I am writing today on behalf of the Delaware Bankers Association regarding the Federal Deposit Insurance Corporation's (FDIC) Notice of Proposed Rulemaking to amend its regulations on risk-based premiums. The proposed rule would create different risk scoring frameworks for smaller and larger banks that are well capitalized and well managed. This letter addresses one specific element of the frameworks for both large and small banks: the use of Federal Home Loan Bank (FHLB) advances in the definition of volatile liabilities, or, alternatively, determining higher assessment rates for banks that have significant amounts of secured liabilities.

The Delaware Bankers Association appreciates the opportunity to comment on this important matter. We feel strongly that FHLB advances should not be included in the definition of volatile liabilities. Furthermore, taking advantage of this secure funding source should not cause a bank to pay higher FDIC assessments.

Deposit insurance premiums should be based on an institution's actual risk profile, taking into account an institution's supervisory rating and capital ratios. Banks that are engaged in excessively risky activities should pay a higher premium, regardless of whether those activities are financed by insured deposits, FHLBank advances, or alternative wholesale funding sources. The professional and capable FDIC examination staff is better suited to determining a bank's risk profile than an inflexible formula imposed on all insured institutions, regardless of circumstance.

Discouraging borrowing from the FHLBanks would be counterproductive to reducing the risk of failure of FDIC-insured institutions. In fact, discouraging the use of FHLBank advances could lead to increasing risks to FHLBank members. Borrowers frequently use FHLBank advances for liquidity purposes and to manage interest-rate risk, as well as to fund loan growth. In many markets, the supply of deposit funds is inadequate to meet loan demand and prudent financial management needs. Curtailing the use of FHLBank advances would force institutions to look to alternative, often more costly wholesale funding sources that are more volatile, thereby reducing profitability and increasing liquidity risk.

FHLB advances are clearly not volatile liabilities. The FHLBs are a stable and reliable source of funds for their member banks. Advances are readily available for member banks with available collateral, and have pre-defined and predictable terms. In fact, advances can be as stable as core deposits, and are not vulnerable to short-term promotions in the local market or surging returns on alternative assets. Even in the case where a bank is experiencing financial difficulties, the FHLB making the advances is required by regulation to coordinate with the FDIC to ensure that the bank has adequate liquidity while minimizing other risks, including losses to the FDIC. The FHLBs have legal authority for confidential access to examination reports to assist with this analysis. Therefore, it would be illogical to include advances in the definition of volatile liabilities.

For 75 years the relationship between the FHLBanks and member financial institutions has worked well. FHLBank advances serve as a critical source of credit for housing and community development purposes, support sound financial management practices, and allow member banks throughout the nation to remain competitive. FHLBank membership has long been viewed as protection for deposit insurance funds because FHLBank members have access to guaranteed liquidity. Penalizing financial institutions for their cooperative relationship with the FHLBanks would result in their being less competitive, limit credit availability in the communities they serve, and limit their use of a valuable liquidity source, all for no justifiable economic or public policy reason. There appears to be no justification to warrant FHLB advances being placed in the definition of volatile liabilities.

The Delaware Bankers Association represents 34 financial institutions with over 300 billion dollars in assets and approximately 28,000 employees in the State of Delaware. We thank you for the opportunity to comment on this important issue.

Sincerely,

David G. Bakerian
President & CEO
Delaware Bankers Association

cc: Valerie Best, vbest@fdic.gov.